

## Message Text

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INFO OCT-01 ISO-00 CIAE-00 PM-04 INR-07 L-03 ACDA-05

NSAE-00 PA-01 SS-15 PRS-01 SP-02 USIA-06 TRSE-00

SAJ-01 H-02 NSC-05 OMB-01 EB-07 /073 W

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R 181300Z DEC 75

FM USMISSION NATO

TO SECSTATE WASHDC 5261

SECDEF WASHDC

INFO AMEMBASSY LONDON

CINCLANT

USCINCEUR

USLOSACLANT

USNMR SHAPE

S E C R E T SECTION 1 OF 2 USNATO 6928

E.O. 11652: GDS

TAGS: MPOL NATO UK

SUBJ: UK DEFENSE CUTS; FRAMEWORK FOR ANALYSIS

REF: A. USNATO 6706 DTG 051720Z DEC 75

B. USNATO 6789 DTG 101256Z DEC 75

SUMMARY: WE HAVE FOLLOWED WITH GREAT INTEREST THE PROGRESS OF UK  
DECISION-MAKING CONCERNING POSSIBLE REDUCTIONS IN DEFENSE  
SPENDING. AS WE STATED EARLIER (REF A), ANY CUTS AFFECTING THE  
UK'S COMMITMENTS TO NATO WOULD HAVE ADVERSE POLITICAL AND  
PSYCHOLOGICAL EFFECTS ON THE ALLIANCE. MANY ALLIES FACE AN  
ECONOMIC PINCH SIMILAR TO THE UK'S; REDUCTIONS BY A MAJOR ALLI-  
ANCE MEMBER MIGHT PROVIDE A STIMULUS TOWARD REDUCTIONS BY OTHERS.  
ALSO, SOME ALLIES BELIEVE STRONGLY THAT A PLAN ONCE MADE AND  
AGREED (SUCH AS THAT RESULTING FROM THE UK DEFENSE REVIEW) SHOULD  
BE ADHERED TO. TO ASSIST WASHINGTON, EMBASSY LONDON AND OTHERS  
IN EVALUATING AND FORMULATING A RESPONSE TO THE UK'S PRESENT  
BUDGETARY REVIEW, WE HAVE IDENTIFIED BELOW SALIENT ANALYTICAL  
FACTORS, USING THE EARLIER DEFENSE REVIEW AS A FRAMEWORK, IN FOUR  
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AREAS: GENERAL, FORCE COMMITMENTS, DEFENSE EXPENDITURES AND  
TACTICS. END SUMMARY.

1. GENERAL. DURING THE DEFENSE REVIEW AND NATO CONSULTATIONS,

THE US ADOPTED A VERY LOW-KEY POSTURE BASED ON: (A) OUR BELIEF THAT UK CUTS WERE INEVITABLE BECAUSE OF BROAD CENTER AND LEFT DOMESTIC POLITICAL SUPPORT, (B) OUR APPROVAL OF THE RELATIVE EMPHASIS GIVEN TO MAINTAINING CENTER REGION CAPABILITIES, AND (C) OUR SYMPATHY WITH THE UK'S ECONOMIC PLIGHT. THIS TIME, WE BELIEVE THAT DOMESTIC DEBATE WILL BE SHARPER AND MORE VOCAL, WHICH WILL MAKE A MORE ACTIVE ROLE BY THE US POSSIBLE OR PERHAPS EVEN SOUGHT AFTER. IN OUR VIEW, POLITICAL ELEMENTS OPPOSING DRASTIC REDUCTIONS WILL SERVE TO BALANCE A STRONG PUSH FROM THE LEFT FOR DEFENSE TO TAKE ITS "FAIR SHARE" OF THE BELT-TIGHTENING. ALSO, WE BELIEVE THE UK WILL LEAVE THE BRITISH ARMY OF THE RHINE UNTOUCHED; PLANS FOR THE ARMY'S REORGANIZATION AND MODERNIZATION ARE WELL ADVANCED, AND BAOR STRENGTH IS INFLUENCED BY TREATY COMMITMENTS AND THE COMMITMENT, RECENTLY RENEWED, NOT TO REDUCE NGA GROUND FORCES IN ADVANCE OF AN MBFR AGREEMENT. THE UK IS MORE LIKELY TO ZERO IN ON NAVAL (AND POSSIBLY AIR FORCE) COMMITMENTS, AND SOME EXPENSIVE MODERNIZATION AND SHIPBUILDING PLANS FOR THEM. FINALLY, WE DOUBT THE ECONOMIC SITUATION OF THE UK IS SUBSTANTIALLY WORSE THAN IT WAS AT THE TIME OF THE DEFENSE REVIEW.

2. FORCE COMMITMENTS. AS STATED ABOVE, WE BELIEVE THE MOST LIKELY AREAS FOR NEW CUTS ARE NAVAL FORCES AND MODERNIZATION PROGRAMS IN SPITE OF SUBSTANTIAL REDUCTIONS RESULTING FROM THE DEFENSE REVIEW, E.G., TOTAL WITHDRAWAL OF MED NAVAL FORCES, THE PHASE-OUT OF THE UK'S ONLY STRIKE CARRIER, REDUCTION OF DESTROYER AND FRIGATE PROGRAMS (10 SHORT, RATHER THAN 4 SHORT, OF THE SACLANT FORCE GOAL), 50 PER CENT REDUCTION IN AMPHIBIOUS FORCES, ONE-THIRD REDUCTION IN CONVENTIONAL SUBMARINE AND MINE COUNTERMEASURES VESSELS, SEVERE CUTS IN SUPPORT SHIPS AND CANCELLATION OR PROLONGATION OF SOME SHIPBOARD MODERNIZATION PLANS. FURTHER REDUCTIONS COULD ONLY EXACERBATE AN ALREADY TENUOUS SITUATION FOR SACLANT AND CINCHAN. IF ADDITIONAL CUTS ARE PROPOSED, WE SHOULD ARGUE THAT THE DEFENSE REVIEW CONTAINED A VIABLE (IF REDUCED) PLAN FOR NAVAL MODERNIZATION AND REPLACEMENT; IN THE ABSENCE OF A REDUCTION IN THE THREAT, THE PLAN SHOULD BE CARRIED OUT.

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3. DEFENSE EXPENDITURES. THE DEFENSE REVIEW RESULTED IN PLANS FOR ROUGHLY LEVEL TOTAL DEFENSE EXPENDITURES ACROSS THE TEN-YEAR PERIOD IN REAL TERMS. THE WHITE PAPER SHOULD BE USED AS THE YARDSTICK BY WHICH TO MEASURE ANY CONTEMPLATED FURTHER REDUCTIONS. THE FOLLOWING OBSERVATIONS ARE APPROPRIATE:

A. THE WHITE PAPER PRESENTED THE FOLLOWING TABLE OF TOTAL PLANNED DEFENSE EXPENDITURES (CONSTANT 1974 REPEAT 1974 SURVEY PRICES; DATA IN MILLIONS OF POUNDS):

| FISCAL YEAR                         |
|-------------------------------------|
| AVERAGE                             |
| 75/76 76/77 77/78 78/79 79/80-83/84 |

PREVIOUS PROGRAM 4000 4070 4150 4300 4450  
DEFENSE REVIEW 3700 3800 3800 3800 3790

B. ANY ANALYSIS OF TOTAL DEFENSE EXPENDITURE PLANS OF THE  
"CURRENT ROUND" SHOULD CONVERT PRICES TO 1974 SURVEY PRICES FOR  
COMPARISON WITH THE "DEFENSE REVIEW" LINE ABOVE, WHICH WILL SHOW  
THE FUTURE TREND OF TOTAL REAL DEFENSE EXPENDITURES AND THE EXTENT  
TO WHICH THE UK WILL HAVE DEVIATED FROM ITS PLAN.

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R 181300Z DEC 75  
FM USMISSION NATO  
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C. THE UK RESPONSE TO DPQ(75) STATED THAT THE CHANCELLOR OF  
THE EXCHEQUER HAD ANNOUNCED IN HIS APRIL 15, 1975 BUDGET STATE-  
MENT THAT THE "DEFENSE BUDGET SHARE" OF PUBLIC EXPENDITURE CUTS  
PLANNED FOR FY 1976/77 (WHICH STARTS APRIL 1, 1976) WOULD BE  
110 MILLION POUNDS (AT 1974 PRICES). THESE CUTS, WHICH PRESUMABLY  
WILL COME OUT OF OVERHEAD AND WILL ONLY INDIRECTLY AFFECT NATO,  
WERE NOT THE SUBJECT OF NATO CONSULTATIONS. THE UK WILL PROBABLY  
USE THE REVISED TOTAL OF 3690 MILLION POUNDS (RATHER THAN THE  
DEFENSE REVIEW TOTAL OF 3800 MILLION POUNDS) AS THE BASIS FOR  
COMPARING RESULTS OF ITS "CURRENT ROUND" WITH ITS EXISTING PLANS  
FOR FY 1976/77. WE SHOULD BASE OUR APPROACH ON THE ORIGINL WHITE  
PAPER TOTAL, SINCE THE LOWER FIGURE WAS NOT THE SUBJECT OF ALLI-  
ANCE CONSULTATIONS.

D. IN THE PAST THREE YEARS DEFENSE EXPENDITURES, AS A PER-  
CENTAGE OF BUDGETARY EXPENDITURES, HAVE DECLINED FROM ABOUT 20 PER  
CENT (1972/73) TO ABOUT 16.6 PERCENT (CURRENT FISCAL YEAR). DE-  
FENSE CUTS LARGER THAN 16.6 PERCENT OF THE TOTAL WOULD INDICATE A  
DISPROPORTIONATE SHARE FOR DEFENSE. WE CAN USE THE ARGUMENT THAT

THE PRINCIPAL PURPOSE OF THE DEFENSE REVIEW WAS NOT TO REDUCE THE  
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DEFENSE SHARE OF BUDGET EXPENDITURES, BUT TO SCALE DOWN FORCES TO MEET THE UK'S REDUCED VIEW OF ITS SECURITY COMMITMENTS; IN THE ABSENCE OF AN ADMISSION BY THE UK THAT IT SEES THESE COMMITMENTS AS EVEN FURTHER REDUCED, IT SHOULD SUPPLY THE FUNDS NECESSARY TO MAKE THE DEFENSE REVIEW PLANS WORK.

E. THE STRUCTURE OF ANY REDUCTIONS WITHIN THE DEFENSE BUDGET POSES TWO PITFALLS: EITHER CAPITAL EXPENDITURES WILL SUFFER TO FINANCE AN INCREASING PROPORTION OF PERSONNEL EXPENDITURES, OR MANPOWER WILL BE REDUCED TO KEEP PERSONNEL EXPENDITURES (AND THUS CAPITAL EXPENDITURES) AT TOLERABLE LEVELS. ONE WAY TO AVOID THESE PITFALLS WOULD BE TO LIMIT PAY INCREASES TO A LEVEL BELOW THE INFLATION RATE, A METHOD USED, OF COURSE, BY OURSELVES WITH SOME SUCCESS. USING NATO DEFINITIONS, THE UK'S RESPONSE TO DPQ(75) PROJECTED THAT 38.6 PERCENT OF DEFENSE EXPENDITURES WOULD GO TO PAY AND ALLOWANCES (MILITARY AND CIVILIAN) AND 22.2 PERCENT TO CAPITAL EXPENDITURES. THE FOLLOWING TABLE GIVES DPQ(75) MANPOWER DATA (AVERAGE FOR THE FISCAL YEAR):

|                 | 74/75   | 75/76   | 76/77   | 77/78   | 78/79   |
|-----------------|---------|---------|---------|---------|---------|
| ACTIVE MILITARY | 358,458 | 347,700 | 340,000 | 333,700 | 327,400 |
| CIVILIAN        | 297,290 | 294,969 | 290,065 | 287,639 | 284,037 |

F. FINALLY, ANALYSIS OF THE "CURRENT ROUND" SHOULD TAKE INTO ACCOUNT TRENDS IN THE TRADITIONAL MEASURES OF DEFENSE EFFORT: PERCENTAGE OF GNP FOR DEFENSE AND PER CAPITA DEFENSE EXPENDITURES. DURING NATO CONSULTATIONS ON THE DEFENSE REVIEW, THE UK MADE CLEAR THAT IT PLANNED TO REDUCE THE DEFENSE SHARE OF GNP FROM 5.8 PERCENT (IN 1974/75) TO 4.5 PERCENT (BY THE MID-80S) AT A RELATIVELY STEADY RATE (BY KEEPING REAL DEFENSE EXPENDITURES CONSTANT WHILE REAL GNP SLOWLY INCREASED). THE UK'S RESPONSE TO DPQ(75) INDICATES THAT THESE PLANS ARE BEING CARRIED OUT. REDUCTIONS IN REAL DEFENSE SPENDING WOULD, OBVIOUSLY, ACCELERATE THE REDUCTION IN PERCENTAGE OF GNP FOR DEFENSE AND REDUCE REAL PER CAPITA DEFENSE SPENDING. THE UK MAY ATTEMPT TO SOFTEN CRITICISM OF SUCH REDUCTIONS BY REFERRING TO ITS "CONTINUING HIGH STANDING" IN PERCENTAGE OF GNP FOR DEFENSE. HERE AGAIN, OUR REACTION SHOULD BE GUIDED BY COMPARISON TO THE PLAN RESULTING FROM THE DEFENSE REVIEW.

4. TACTICS. BEFORE LAST DECEMBER'S PRESENTATION OF THE DEFENSE  
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REVIEW RESULTS TO NATO, THE UK CONDUCTED BILATERAL CONSULTATIONS WITH THE US IN WASHINGTON. BOTH UK/UK AND NATO/UK CONSULTATIONS WERE CONDUCTED IN THE CONTEXT OF HMG'S "FIRM DECISION" ON DEFENSE EXPENDITURES. WE DOUBT THAT THE UK WILL ASK FOR BILATERAL

CONSULTATIONS THIS TIME, OR THAT WE SHOULD PRESS TO CONSULT BI-LATERALLY. INSTEAD, WE BELIEVE THAT WE SHOULD WORK NOW FOR "FULL CONSULTATIONS" WITHIN NATO, WHICH WE DEFINE AS THOSE CAPABLE OF INFLUENCING THE FINAL OUTCOME. THE UK COMMITTED ITSELF TO THIS KIND OF CONSULTATION AT THE DPC MINISTERIAL MEETING (REF B), BUT IT MIGHT BE USEFUL TO REITERATE OUR EXPECTATIONS IN LONDON AND WASHINGTON AS PRELIMINARY DECISIONS ARE MADE. LATER, FOLLOWING ANNOUNCEMENT OF THESE DECISIONS, WE SEE THE US TAKING THE LEAD BEFORE AND DURING THE NATO CONSULTATION PROCESS TO AVOID A REDUCTION IN NATO-COMMITTED FORCES.BRUCE

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 18 AUG 1999  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** n/a  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 18 DEC 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** johnsorg  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975NATO06928  
**Document Source:** ADS  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** 11652 GDS  
**Errors:** n/a  
**Film Number:** n/a  
**From:** NATO  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19751290/abbrznms.tel  
**Line Count:** 229  
**Locator:** TEXT ON-LINE  
**Office:** n/a  
**Original Classification:** SECRET  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 5  
**Previous Channel Indicators:**  
**Previous Classification:** SECRET  
**Previous Handling Restrictions:** n/a  
**Reference:** A. USNATO 6706 DTG 051720Z DEC 75 B. USNATO 6789 DTG 101256Z DEC 75  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** johnsorg  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 30 APR 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <30 APR 2003 by BoyleJA>; APPROVED <06 NOV 2003 by johnsorg>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** UK DEFENSE CUTS; FRAMEWORK FOR ANALYSIS  
**TAGS:** MPOL NATO UK  
**To:** STATE  
SECDEF INFO LONDON  
CINCLANT  
USCINCEUR  
USLOSACLANT  
USNMR SHAPE

**Type:** TE

**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006